

R 040620Z MAR 85
FM AMEMBASSY BANDAR SERI BEGAWAN
TO SECSTATE WASHDC 0511

C O N F I D E N T I A L SECTION 01 OF 04 BANDAR SERI BEGAWAN 0214

E.O. 12356: DECL: OADR
TAGS: [ECON](#) [BX](#) [KPRP](#)
SUBJ: BIG BUSINESS IS ROYAL BUSINESS IN BRUNEI

11. C - ENTIRE TEXT.

12. SUMMARY: BEGINNING A FEW YEARS BEFORE INDEPENDENCE, SIGNIFICANT GROWTH HAD OCCURRED IN THE SHARE OF BRUNEI'S PRIVATE ECONOMY OWNED BY ETHNIC MALAY CITIZENS, "BUMIPUTRA" BUSINESS, AS IT IS CALLED. WHILE THIS HAS ENRICHED A NUMBER OF BUMIPUTRA BUSINESSMEN, THE EXTENT TO WHICH THE WEALTH HAS BEEN SHARED HAS NOT SATISFIED EVERYONE. CONTACTS WITH THE LOCAL MALAY CHAMBER OF COMMERCE HAVE ELICITED SEVERAL EXPRESSIONS OF DISSATISFACTION WITH THE EXTENT TO WHICH BUMIPUTRA BUSINESS GROWTH HAS BEEN DOMINATED BY TWO COMPANIES, QAF AND JASRA, PARTICULARLY THE FORMER. THESE TWO COMPANIES ARE OWNED BY THE SULTAN'S BROTHERS, AND THEIR RAPID GROWTH TO BECOME THE LARGEST PRIVATE EMPLOYERS IN PGUNAI ASIDE FROM BRUNEI SHELL IN JUST A FEW YEARS HAS CAUSEX RESENTMENT.
END SUMMARY

13. THE MALAY CHAMBER HAS AMONG ITS LEADERSHIP -- INCLUDING ITS PRESIDENT -- MEN WHO WERE PROMINENT IN THE OPPOSITION PARTY THAT DIED WITH ELECTORAL POLITICS IN THE MID-SIXTIES AND, ACCORDING TO ONE CHAMBER OFFICIAL WHO WAS NOT A MEMBER OF THAT PARTY, THE ORGANIZATION CARRIES A BURDEN IN STILL BEING IDENTIFIED WITH IT. THE CHAIRMAN OF THE CHAMBER, HOWEVER, IS A FORMER MENTERI BESAR -- A CHIEF MINISTER -- AND IS ALSO CHAIRMAN OF QAF. THE CHAMBER, DESPITE ITS "BURDEN", MANAGES TO SERVE AS A CHANNEL OF COMMUNICATION TO THE GOVERNMENT IN ELICITING POLICIES FAVORABLE TO ITS MEMBERS. AN EXAMPLE IS THE CURRENT RUMOR THAT BRUNEI WILL ESTABLISH A NATIONAL BANK: CHAMBER OFFICIALS CLAIM THAT THIS IS THEIR SUGGESTION SINCE THEY ARE UNABLE TO OBTAIN ADEQUATE FINANCING FROM EXISTING BANKS TO SUPPORT THEIR BUSINESS GROWTH. INTERESTINGLY, THEY DO NOT BLAME THE BANKS, OF WHICH ONLY TWO ARE HEADQUARTERED HERE AND EVEN THOSE TWO ARE MAJORITY-OWNED BY FOREIGNERS, FOR THIS LACK OF SUPPORT. THEY UNDERSTAND, THEY SAY, THAT THE BANKS MUST HAVE COLLATERAL FOR A LOAN, BUT MOST BUMIPUTRA BUSINESSMEN HAVE LAND AS THEIR CHIEF ASSET AND THEY CANNOT PLEDGE THEIR LAND AS COLLATERAL BECAUSE THE BANKS COULD NOT SIMPLY FORECLOSE AND GAIN POSSESSION OF THE LAND IN THE EVENT OF DEFAULT. ALL LAND TRANSFERS ARE SUBJECT TO THE APPROVAL OF THE SULTAN AND LAND CANNOT BE OWNED BY NON-CITIZENS. (THEORY AND PRACTICE DIVERGES SOMEWHAT ON THE QUESTION OF LAND OWNERSHIP IN BRUNEI. IN THEORY, CITIZENS DO NOT OWN LAND EITHER, IN THE SENSE OF HAVING CLEAR TITLE, BUT MERELY HOLD LAND AT THE SUFFERANCE OF THE SULTAN; IN THEORY THE SULTAN COULD REPOSSESS LAND, E.G., AGRICULTURAL LAND ALLOWED TO LIE IDLE FOR TWO YEARS, BUT IN PRACTICE HE DOES NOT.) THE LAW THAT PROVIDES FOR THESE LIMITATIONS IS BLAMED BY THE CHAMBER OFFICIALS FOR THEIR FINANCING DIFFICULTIES, AND THE REQUIREMENT THAT THE SULTAN APPROVE LAND TRANSFERS IS REGARDED AS AN UNWARRANTED LIMITATION OF THEIR BUSINESS OPPORTUNITIES. CHAMBER MEMBERS HAVE SAID THAT INADEQUATE FULFILLMENT OF PROMISES TO FAVOR BUMIPUTRA BUSINESSES IN AWARDED GOVERNMENT CONTRACTS IS A FAVORITE THEME OF THE GOB - CHAMBER MEETINGS.

14. THE TWO BIG BUMIPUTRA BUSINESSES, HOWEVER, HAVE SUFFERED FROM NO SUCH PROBLEMS. QAF IS MAINLY OWNED BY PRINCE MOHAMED, ONE OF THREE YOUNGER BROTHERS OF THE SULTAN OF BRUNEI (AND MINISTER OF FOREIGN AFFAIRS) AND ITS RAPID EXPANSION TO A COMPANY WITH 1,500 EMPLOYEES AND SIGNIFICANT ASSETS IN BOTH BRUNEI AND SINGAPORE IN THE SHORT TIME SINCE 1982 IS ACCOUNTED FOR MAINLY BY ITS ABILITY TO DRAW ON HUGE FINANCIAL RESERVES TO BUY EXISTING BUSINESSES AND THEN ASSURE THEIR SUCCESS THROUGH A NETWORK OF GOOD CONNECTIONS. QAF'S SINGAPORE ASSETS INCLUDE BEN AND CO., THROUGH WHICH QAF STOCK WILL BE TRADED ON THE SINGAPORE STOCK EXCHANGE, AND NATIONAL COLD STORAGE, A WELL-KNOWN FOOD WHOLESALE AND RETAILER THERE, IN ADDITION TO STAKES IN SEVERAL TRADING AND REAL ESTATE COMPANIES. QAF RECENTLY MADE NEWS IN THE BUSINESS PAPERS IN

SINGAPORE WHEN IT SOLD ITS PIZZA HUT FRANCHISE. IN BRUNEI, QAF'S INFLUENCE IS BROAD, RANGING FROM CONTROLLING INTEREST IN THE ONE NEWSPAPER PUBLISHED HERE THROUGH FOOD RETAILING TO REAL ESTATE DEVELOPMENT. A PARTIAL LIST OF QAF'S LOCAL HOLDINGS INCLUDE OWNERSHIP OF QAF PLAZA, BRUNEI'S NEWEST (AND LEAST CONVENIENTLY LOCATED) SHOPPING AND OFFICE COMPLEX: 20 PERCENT OF THE ISLAND DEVELOPMENT BANK, ONE OF TWO LOCALLY-CHARTERED BANKS AND A RECENT ACQUISITION (THE ROYAL FAMILY REPORTEDLY OWNS 30 PERCENT OF THE OTHER LOCAL BANK -- NATIONAL BANK OF BRUNEI -- AND PRINCE SUFRI IS PRESIDENT OF THE BANK); 75 PERCENT OF BRUNEI PRESS, WHICH PUBLISHES THE BORNEO BULLETIN; 50 PERCENT OF LOCAL DAIRY FARM OPERATIONS, WHICH OWNS THE BEST LOCAL SUPERMARKETS AND WESTERN RESTAURANT, IN ADDITION TO CATERING SERVICES (INCLUDING FOR ROYAL BRUNEI AIRLINES) AND WHOLESALE FOOD DISTRIBUTION; 49 PERCENT OF Q-CARRIER, WHICH MARKETS AND SERVICES AIR CONDITIONERS; 50 PERCENT OF AN INDUSTRIAL GAS COMPANY, SUPPLIER TO BRUNEI SHELL, AND 100 PERCENT OF FOUR OR FIVE OTHER COMPANIES THAT SUPPLY PRODUCTS OR SERVICES TO BRUNEI SHELL; PLUS VARYING PERCENTAGES OF COMPANIES THAT ARE AGENTS FOR SUCH FOREIGN COMPANIES AS MERCEDES-BENZ, NISSAN, SUZUKI, BEECHAMS, CADBURY SCHWEPPES, PROCTOR & GAMBLE, AND INTERNATIONAL PAINTS. IN ADDITION, RUMORS HAVE CONNECTED QAF WITH THE PLANNED CONSTRUCTION OF A NEW INTERNATIONAL-STANDARD HOTEL, TO BE CALLED THE PRINCE HOTEL.

15. JASRA HAS ONLY ABOUT ONE-THIRD THE NUMBER OF EMPLOYEES AS QAF, BUT IN AN ECONOMY THE SIZE OF BRUNEI'S, THE GROWTH TO THAT LEVEL OVER ONLY SIX YEARS PUTS JASRA INTO THE SAME VERY VISIBLE CATEGORY. JASRA IS MAINLY OWNED BY PRINCE JEFRI, ALSO DEPUTY MINISTER FOR FINANCE AND CHAIRMAN OF THE GOVERNMENT TENDER COMMITTEE, AND HAS GROWN THROUGH EXPANSION OF ITS SUPPLY AND SERVICE CONTRACTS TO BRUNEI SHELL. NOW THAT ITS CONSTRUCTION ACTIVITIES HAVE BEEN CURTAILED, THE MAIN BUSINESS OF THE COMPANY IS OIL. JASRA IS A PARTNER IN THE ONLY ACTIVE OIL EXPLORATION EFFORT IN BRUNEI IN RECENT YEARS OUTSIDE BRUNEI ASMELL, UNDERTAKEN BY JASRA JACKSON, A JOINT VENTURE OF JASRA AND THE AMERICAN JACKSON OIL CO. IF JASRA JACKSON WERE TO STRIKE OIL IN SIGNIFICANT QUANTITIES, IT WOULD BE AN INTERESTING COMPLICATION IN THE ROYAL FAMILY'S BUSINESS AFFAIRS, AS PRINCE JEFRI IS ALSO REPORTEDLY PART-OWNER WITH OTHER MEMBERS OF THE ROYAL FAMILY OF A COMPANY THAT EITHER BUYS OIL FROM BRUNEI SHELL OR RECEIVES A QUANTITY AS A PAYMENT IN KIND AND THEN RESELLS IT THROUGH SHELL OIL'S MARKETING ORGANIZATION. THIS PAPER TRANSACTION, OF UNKNOWN VALUE, IS WHERE THE ROYAL FAMILY RECEIVES MUCH OF ITS PRIVATE FLOW OF WEALTH FROM BRUNEI'S OIL. JASRA ALSO OWNS THE LARGEST CAR RENTAL AGENCY IN BRUNEI AND, AS WITH NEARLY ALL BUMIPUTRA BUSINESS, IS ACTIVE IN REAL ESTATE DEVELOPMENT. A RECENT MAJOR MOVE WAS THE ACQUISITION OF 50 PERCENT OF THE LOCAL OFFICE OF THE VENERABLE HARRISONS AND CROSFIELD TRADING COMPANY, A MAJOR SUPPLIER OF IMPORTED GOODS TO THE PRIVATE ECONOMY, HENCEFORTH TO BE KNOWN IN BRUNEI AS JASRA HARRISONS. JASRA ITSELF HAS ALWAYS BEEN AN IMPORTER AND SUPPLIER TO THE GOVERNMENT AND BRUNEI SHELL.

16. THE RAPID GROWTH OF THE COMPANIES OWNED BY THE ROYAL BROTHERS LEADS TO THE QUESTION OF WHETHER THERE IS SOME PLANNED OBJECTIVE FOR THE ROYAL FAMILY IN BECOMING SO ACTIVE SO FAST IN THE DOMESTIC ECONOMY, AND WHETHER THERE IS ANY COORDINATION OF THE FAMILY'S BUSINESS ACTIVITIES. SPECULATION ON MOTIVE WAS MERELY FUELED BY AN ANNOUNCEMENT PUBLISHED IN NOVEMBER 1984 TO THE EFFECT THAT THE SULTAN OFFICIALLY DENIED THAT THE GOVERNMENT OF BRUNEI HAD ANY INTENTION TO BUY ANY COMMERCIAL COMPANY "FOR EXAMPLE, QAF LIMITED". THE ANNOUNCEMENT, IN BRUNEI'S OFFICIAL NEWSPAPER, PELITA BRUNEI, WENT ON TO SAY THAT "THIS STRONG DENIAL WAS MADE TODAY IN A STATEMENT ISSUED BY THE MINISTRY OF FINANCE WHICH WENT ON TO SAY THAT ANY INVOLVEMENT BY MEMBERS OF THE BRUNEI ROYAL FAMILY IN ANY COMMERCIAL COMPANY WHETHER INSIDE OR OUTSIDE THE COUNTRY IS THEIR OWN PERSONAL MATTER AND HAS NO CONNECTION WHATSOEVER WITH HIS MAJESTY'S GOVERNMENT." THE ANNOUNCEMENT ALSO CAUSED SOME SPECULATION THAT IT MIGHT BE EVIDENCE OF A FAILURE TO COORDINATE THE ROYAL FAMILY'S BUSINESS ACTIVITIES, THAT, IN FACT, THE SULTAN MIGHT BE ANNOUNCING HIS DISAPPROVAL OF QAF'S -- AND BROTHER MOHAMED'S -- ACTIVITIES.

17. THREE POSSIBLE MOTIVES HAVE BEEN SERIOUSLY DISCUSSED BY EXPATRIATE OBSERVERS WHO HAVE BEEN AWARE OF THE ACCOMPANYING GROWTH IN DISSATISFACTION FROM OTHER BUMIPUTRA BUSINESSMEN

AS WELL AS FROM THE CHINESE BUSINESS COMMUNITY. (IT IS UNDERSTOOD THAT PARTICULARLY CHINESE BUSINESS IN THE SERIA/ KUALA BELAIT AREA HAS BEEN AFFECTED, WHERE THE CHINESE WHO LONG SERVED AS LOCAL CONTRACTORS TO BRUNEI SHELL HAVE BEEN SQUEEZED.) THERE ARE: (1) THAT THE BUSINESS INTERESTS ARE INTENDED TO ACHIEVE THE SAME THING AS ANY OTHER BUSINESS, MAKE A PROFIT AND ENRICH, IN THIS CASE, FURTHER ENRICH THE OWNERS; (2) THAT THE ROYAL FAMILY OBSERVED THAT EXISTING BUMIPUTRA BUSINESS WAS NOT ADEQUATELY SKILLED OR SUFFICIENTLY FINANCED TO EXPAND INTO AREAS THAT NATIONAL POLICY WANTED TO SEE TAKEN OVER FROM FOREIGNERS (OR THAT THEY WERE DISMAYED BY THE TENDENCY FOR BUMIPUTRA BUSINESSES TO BE "ALI BABA" COMPANIES, ONES WHICH HAVE BUMIPUTRA EQUITY PARTICIPATION, AND A MALAY NAME, BUT WHICH ARE ACTUALLY ONLY CONTINUATIONS OF WELL-ESTABLISHED CHINESE FIRMS WHERE THE MANAGEMENT, LABOR AND MOST OF THE EQUITY REMAINS CHINESE), SO THEY DECIDED TO DO IT THEMSELVES, OR (3) THAT THE ROYAL FAMILY, ALREADY ASSURED OF A MONOPOLY ON POLITICAL POWER, WANTED TO ASSURE THAT LEAVING THE HIGH POINTS OF THE ECONOMY IN THE HANDS OF OTHERS, EVEN IF THEY WERE BUMIPUTRAS, DID NOT LEAD TO THE DEVELOPMENT OF ALTERNATIVE POWER CENTERS IN THE SOCIETY.

18. THE THIRD POSSIBILITY PROBABLY CAN BE DISMISSED FAIRLY QUICKLY BECAUSE NOT VERY MUCH ECONOMIC ACTIVITY GOES ON IN BRUNEI THAT IS NOT DEPENDENT ON EITHER THE GOVERNMENT OR BRUNEI SHELL, BOTH OF WHICH CAN BE CONTROLLED BY THE ROYAL POLITICAL MONOPOLY. MOST BUSINESSES HERE OF ANY SIZE COULD BE QUICKLY RUINED IF CUT OFF FROM CONTRACTS FROM THOSE TWO SOURCES. AN ANNOUNCED SCHEME TO SELL QAF STOCK TO BRUNEI CITIZENS, WITH LIMITATIONS ON THEIR ABILITY TO RESELL IT, MAY BE INTENDED TO ALLOW PARTICIPATION IN PRIVATE ECONOMIC GROWTH BY A WIDER GROUP WITHOUT ACTUALLY LOSING CONTROL OF A KEY ECONOMIC SECTOR TO ANYONE. THE PLAN WOULD HAVE 30 PERCENT OF THE QAF STOCK SOLD AT A SPECIAL PRICE TO QUALIFIED BUYERS.

19. SEVERAL OBSERVERS PUT THE DOMESTIC ROYAL BUSINESS ACTIVITIES DOWN TO A SIMPLE DESIRE TO GET RICHER, WHICH MAY SEEM UNNECESSARY, ALL THINGS CONSIDERED, BUT NOT UNUSUAL CERTAINLY IN THE SOUTHEAST ASIAN CONTEXT. THIS MAY WELL HAVE BEEN THE INITIAL MOTIVATION, BUT THE BUSINESS PRACTICES OF THE TWO COMPANIES SEEM TO BE ALLOWING FOR THE SECOND POSSIBILITY TO BE AT LEAST A CONSIDERATION. OFFICIALS OF BOTH COMPANIES AT THE MANAGING DIRECTOR OR FINANCIAL CONTROLLER LEVEL HAVE DECLARED TO EMBOFF THAT THEY NO LONGER BID FOR THE BASIC CATERING, SUPPLY AND MAINTENANCE CONTRACTS OF BRUNEI SHELL AND THE GOVERNMENT THAT THEY ONCE DID. THESE ARE CONSCIOUSLY LEFT TO SMALLER BUMIPUTRA COMPANIES. QAF AND JASRA HAVE MOVED "UPMARKET", DOING MORE TECHNICAL OR MORE CAPITAL INTENSIVE THINGS AS THEY SEE OTHER BUMIPUTRA COMPANIES ABLE TO DO THE SIMPLER THINGS. TO THE EXTENT THIS IS NOT A BUSINESS DECISION, BUT INSTEAD A MATTER OF POLICY AIMED AT ACHIEVING A GIVEN STRUCTURE IN THE BUMIPUTRA COMMUNITY, THEN HIGHER MOTIVES CAN BE ASCRIBED TO THE ROYAL BUSINESS ACTIVITIES. HOWEVER, TO SOME EXTENT AT LEAST, IT IS A BUSINESS DECISION, AS A JASRA MANAGER ADMITTED TO EMBOFF. THE LOWER END OF THE RANGE OF CONTRACTS HAS BECOME MORE COMPETITIVE, WITH PROFIT MARGINS THINNER AND PRICING TOUGHER, SO THE MANAGERS OF THE ROYAL COMPANIES MAY SIMPLY BE MOVING ON TO WHERE THE CREAM IS THICKER.

10. AN INTERESTING QUESTION IS WHAT THE FOURTH BROTHER, PRINCE SUFRI, WILL BE ALLOWED AS HIS SHARE. HE APPEARS TO BE BELATEDLY MAKING HIS MOVE INTO THE BRUNEI BUSINESS WORLD, (ASIDE FROM REAL ESTATE DEVELOPMENT, IN WHICH HE HAS HAD INTERESTS FOR SEVERAL YEARS) WITH THE VEHICLE BEING SINARAN, A COMPANY THAT HAS EXISTED SINCE 1974, BUT INACTIVE UNTIL VERY RECENTLY. SINARAN, REGISTERED AS A TRADING AND CONSTRUCTION COMPANY, MAY BE THE RECIPIENT, IN PARTNERSHIP WITH AN AMERICAN FIRM, OF SOME OF THE LARGE CONTRACTS THAT ARE RUMORED AS AVAILABLE OVER THE NEXT YEAR, INCLUDING A NEW AIR BASE, SEVERAL MORE PIECES OF BRUNEI'S COASTAL HIGHWAY, A MAJOR BRIDGE ACROSS THE BRUNEI RIVER AND PERHAPS A RE-TENDERING OF THE CONTRACT TO BUILD A COGENERATION PLANT. CERTAINLY THE AMERICAN FIRM HAS INDICATED IT BELIEVES IT HAS A GOOD CHANCE AT THESE, BECAUSE OF ITS CONNECTION WITH SINARAN. IF ALL THREE YOUNGER BROTHERS SET OUT TO BUILD LARGE BUSINESSES WITHIN BRUNEI, THE OPPORTUNITIES FOR OTHER BUMIPUTRA BUSINESSMEN WILL BE ACCORDINGLY LIMITED. THIS IS

EVEN MORE TRUE WHEN THE ACTIVITIES OF SISTERS AND OTHER ASSORTED IN-LAWS ARE ADDED. SEVERAL SECOND-RANKING TRADING AND CONSTRUCTION FIRMS COUNT ROYALTY AMONG THEIR OWNERS.

11. THE CONCLUSION IS THAT, FOR WHATEVER REASON, THE ROYAL FAMILY DOMINATES THE MALAY BUSINESS COMMUNITY TO AN EXTENT THAT PROBABLY IS CAUSING GREATER DISSATISFACTION THAN THE EXTENT TO WHICH THEY DOMINATE THE NATION'S POLITICS. MOTIVES MAY BE TRADITIONAL BUSINESS REASONS, AND THE ECONOMIC DOMINANCE INADVERTENT, MERELY THE NATURAL RESULT OF BETTER FINANCING AND GOOD CONNECTIONS, BUT THE RESENTMENT BEARS WATCHING. OFFICIALS OF THE TWO BIG COMPANIES THEMSELVES ARE AWARE OF IT, BUT THE EXTENT TO WHICH THE ROYAL FAMILY BELIEVES IT SOMETHING TO BE CONCERNED ABOUT IS UNKNOWN. PRINCE SUFRI'S BUSINESS PROSPECTS MAY BE BOTH DEPENDENT ON AND AN INDICATION OF THE EXISTENCE OF SUCH CONCERN.

KING